

**REPORT OF THE AUDIT OF THE  
MARSHALL COUNTY  
SHERIFF'S SETTLEMENT - 2004 TAXES**

**April 29, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**MARSHALL COUNTY**  
**SHERIFF'S SETTLEMENT - 2004 TAXES**

**April 29, 2005**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2004 Taxes for Marshall County Sheriff as of April 29, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$14,532,859 for the districts for 2004 taxes, retaining commissions of \$561,839 to operate the Sheriff's office. The Sheriff distributed taxes of \$13,848,106 to the districts for 2004 Taxes. Taxes of \$6,807 are due to the districts from the Sheriff and refunds of \$11,953 are due to the Sheriff from the taxing districts.

**Comments:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Has A Deficit Of \$484 In His Tax Account
- The Sheriff Should Include Franchise Taxes On His Annual Settlement

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Mike Miller, Marshall County Judge/Executive  
Honorable Terry Anderson, Marshall County Sheriff  
Members of the Marshall County Fiscal Court

Independent Auditor's Report

We have audited the Marshall County Sheriff's Settlement - 2004 Taxes as of April 29, 2005. This tax settlement is the responsibility of the Marshall County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Marshall County Sheriff's taxes charged, credited, and paid as of April 29, 2005, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated April 13, 2006 on our consideration of the Marshall County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Mike Miller, Marshall County Judge/Executive  
Honorable Terry Anderson, Marshall County Sheriff  
Members of the Marshall County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Has A Deficit Of \$484 In His Tax Account
- The Sheriff Should Include Franchise Taxes On His Annual Settlement

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
April 13, 2006



MARSHALL COUNTY  
TERRY ANDERSON, SHERIFF  
SHERIFF'S SETTLEMENT - 2004 TAXES

April 29, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,291,612	\$ 4,370,074	\$ 4,138,174	\$ 1,642,730
Tangible Personal Property	168,655	569,711	402,150	1,412,705
Intangible Personal Property				347,726
Increases Through Exonerations	15,493	41,006	42,463	38,568
Franchise Corporation	122,423	361,702	306,443	
Additional Billings		14,076		
Penalties	11,566	40,233	36,610	16,463
Adjusted to Sheriff's Receipt	6	(2,569)	3	3
Gross Chargeable to Sheriff	<u>\$ 1,609,755</u>	<u>\$ 5,394,233</u>	<u>\$ 4,925,843</u>	<u>\$ 3,458,195</u>
<u>Credits</u>				
Exonerations	\$ 14,504	\$ 49,191	\$ 42,252	\$ 225,603
Discounts	22,168	74,981	68,645	51,846
Delinquents:				
Real Estate	33,146	107,003	106,195	42,156
Tangible Personal Property	417	1,304	1,004	1,242
Intangible Personal Property				1,307
Uncollected Franchise	1,653	4,037	5,284	
Current Tax Rate Error (See Note 7)		1,229		
Total Credits	<u>\$ 71,888</u>	<u>\$ 237,745</u>	<u>\$ 223,380</u>	<u>\$ 322,154</u>
Taxes Collected	\$ 1,537,867	\$ 5,156,488	\$ 4,702,463	\$ 3,136,041
Less: Commissions *	<u>65,647</u>	<u>193,334</u>	<u>169,289</u>	<u>133,569</u>
Taxes Due	\$ 1,472,220	\$ 4,963,154	\$ 4,533,174	\$ 3,002,472
Taxes Paid	1,446,489	4,935,143	4,477,151	2,989,323
Refunds (Current and Prior Year)	<u>23,244</u>	<u>38,909</u>	<u>53,654</u>	<u>12,253</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ 2,487</u>	<u>\$ (10,898)</u>	<u>\$ 2,369</u>	<u>\$ 896</u>

\* and \*\* See Next Page.

The accompanying notes are an integral part of this financial statement.

MARSHALL COUNTY  
TERRY ANDERSON, SHERIFF  
SHERIFF'S SETTLEMENT - 2004 TAXES  
April 29, 2005  
(Continued)

\* Commissions:

10% on 10,000	\$	1,000
4.25% on 9,026,021	\$	383,606
3.6% on 4,702,464	\$	169,289
1% on 794,374	\$	7,944

\*\* Special Taxing Districts:

Library District	\$	82
Health District		391
Extension Service District		95
Soil Conservation District		37
Hospital District		174
Refuse District		(8,073)
City of Hardin		(1)
Aurora Ross Fire District		5
East Marshall Fire District		60
Possum Trot Fire District		163
Harvey Brewers Fire District		48
Fairdealing Fire District		(3,878)
Hardin-South Marshall Fire District		(1)
		<hr/>
Due Districts or (Refunds Due Sheriff)	\$	<u>(10,898)</u>

MARSHALL COUNTY  
NOTES TO FINANCIAL STATEMENT

April 29, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 29, 2005, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

MARSHALL COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 29, 2005  
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 12, 2004, through April 29, 2005.

Note 4. Interest Income

The Marshall County Sheriff earned \$3,140 as interest income on 2004 taxes. As of April 13, 2006, the Sheriff owes \$20 in interest to the school district and \$32 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Marshall County Sheriff collected \$78,785 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Marshall County Sheriff collected \$8,575 of advertising costs and \$1,225 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff used the advertising costs to reimburse the fee account for the expense of advertising delinquent taxes. The advertising fees will be used to operate the Sheriff's office

Note 7. Current Year Tax Rate Error

The 2004 franchise tax bills included an error on the tax rate used for the Marshall County Refuse District. The tax rate used on the 2004 franchise tax bills was 9.6 percent, while the actual approved rate was 9.8 percent. This error resulted in the \$1,229 credit for tax revenue that was not received.

## COMMENTS AND RECOMMENDATIONS



MARSHALL COUNTY  
TERRY ANDERSON, SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of April 29, 2005

STATE LAWS AND REGULATIONS:

The Sheriff Has A Deficit Of \$484 In His Tax Account

There was a deficit of \$484 in the Sheriff's official tax account as of April 29, 2005. This deficit resulted from a prior year shortage of \$47 and current year undeposited receipts of \$437. We recommend that the Sheriff deposit personal funds of \$484 in his tax account to eliminate this deficit.

*Sheriff's Response: None*

The Sheriff Should Include Franchise Taxes On His Annual Tax Settlement

The Sheriff did not include franchise tax collections or distributions on his 2004 tax settlement. KRS 134.310(5) states "In counties containing a population of less than seventy thousand (70,000), the sheriff shall file annually with his final settlement: A complete statement of all funds received by his office..." We recommend the Sheriff comply with KRS 134.310(5) by including franchise tax collections and distributions on his annual tax settlement that is approved by fiscal court.

*Sheriff's Response: None*

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size, and budget restrictions the official has limited options for establishing adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily collection report and daily cash sheet. Any differences should be reconciled. He could document this by initialing the bank deposit slip, daily collection report, and daily cash sheet.
- The Sheriff should compare the tax settlement to monthly reports and bank records for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the tax settlement.
- The Sheriff should periodically compare tax payments to monthly reports. The Sheriff could document this by initialing the monthly report.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

*Sheriff's Response: None*

MARSHALL COUNTY  
TERRY ANDERSON, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of April 29, 2005  
(Continued)

PRIOR YEAR:

The comments below were corrected in the current year.

- The Sheriff Should Have His Tax Settlement Approved By Fiscal Court By September 1 Of Each Year
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To Honorable Mike Miller, Marshall County Judge/Executive  
Honorable Terry Anderson, Marshall County Sheriff  
Members of the Marshall County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Marshall County Sheriff's Settlement - 2004 Taxes as of April 29, 2005, and have issued our report thereon dated April 13, 2006. The Sheriff prepares his settlement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Marshall County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. This reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Marshall County Sheriff's Settlement - 2004 Taxes as of April 29, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Has A Deficit Of \$484 In His Tax Account
- The Sheriff Should Include Franchise Taxes On His Annual Tax Settlement

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
April 13, 2006

